

# Federal Policy and Urban Fiscal Strain

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Most observers have attributed the fiscal crises that have affected many of our major urban centers in the last decade to a variety of market shifts in the American economy. According to the prevailing explanation, the decline in the fiscal capacity of cities was the inevitable result of the decreased economic attractiveness of urban centers. Government policies and underlying political exigencies have been deemed secondary causes, necessarily subordinate to market forces.

This article will show that the market explanation for fiscal strain is incomplete and misleading. While market forces are important, government policies, shaped by political as well as economic exigencies,<sup>1</sup> are also important. The assertion that governmental actions are necessarily subordinate to the market is an ideological one, designed to reduce the realm of the political by definitional fiat.<sup>2</sup>

Part I of this article demonstrates that a series of federal policies helped stimulate the exodus of capital and population that eroded the revenue base of the older industrial cities. At the same time, other fed-

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1. This point of view, which casts state leaders as major historical actors in the shaping of societies, stems from an eminent intellectual tradition that includes Max Weber, in addition to such contemporary analysts as Stein Rokkan, Andrew Schonfeld, Charles Tilly, and Charles Lindblom. The argument made in the present article about urban fiscal strain was alluded to by Joseph Schumpeter when he asserted that in some historical periods the influence of state policies on economy and society "explains practically all the major features of events, in most periods it explains a great deal and there are but a few periods when it explains nothing." Schumpeter, *The Crisis of the Tax State*, 4 INT'L. ECON. PAPERS 5, 7 (1954). See C. LINDBLOM, *POLITICS AND MARKETS* (1977); S. ROKKAN, *CITIZENS, ELECTIONS, PARTIES* (1970); A. SCHONFELD, *MODERN CAPITALISM* (1965); M. WEBER, *ECONOMY AND SOCIETY* (1968); Tilly, *Western State-making and Theories of Political Transformation*, in *THE FORMATION OF NATIONAL STATES IN WESTERN EUROPE* 601 (C. Tilly ed. 1975).

In focusing on state policies and structures as causes of urban fiscal strain, this article perhaps gives less than adequate attention to the complex processes which shape particular state policies and state structures. Walton, writing of what he calls "the new urban social science," tries to suggest the scope of a complete examination of urban developments when he asserts that the new urban social science "is concerned with the interplay of relations of production, consumption, exchange, and the structure of power manifest in the state." J. Walton, *Economic Crisis and Urban Austerity: Issues of Research and Policy in the 1980's*, at 4 (May 1980) (unpublished manuscript on file with the *Yale Law & Policy Review*). In other words, a more complete explanation would treat economic and political developments in their complex interactions.

2. Lukes makes this point nicely when he asserts that "[t]o talk of power implies that, if the future facing social actors is not entirely open, it is not entirely closed either." S. LUKES, *ESSAYS IN SOCIAL THEORY* 7 (1977).

eral policies were serving to fuel demands for compensatory social programs for urban residents. Together, these policies precipitated the fiscal difficulties of the older industrial cities.

Part II shows that the American polity contains distinctive structural features that help to account for the inconsistent federal policies which generated urban fiscal strain.<sup>3</sup> These arrangements include the tendency for investor-oriented and popularly-oriented policies to be located at different levels of the federal system and in different agencies of a fragmented governmental structure.

Finally, Part III addresses current policies and politics, postulating that policy initiatives of the Reagan administration will shape both the local politics and future prospects of urban fiscal strain. The impact of the new policies is partly redistributational; there has been a dramatic shift toward investor-oriented federal programs. More importantly, however, the new policies are evidence of an effort by the administration to alter the structural arrangements which permitted the emergence of the politics underlying compensatory urban social welfare programs.

## I. *The Causes of Urban Fiscal Strain*

### A. *The Federal Policies Leading to Diminished Municipal Resources*

The prevailing explanation of the fiscal strain that has bedeviled many older large American cities emerges from the reports of Presidential commissions, the work of numerous academics, and the popular press.<sup>4</sup> It is easy to summarize. In response to lower taxes, lower labor costs, and other locational incentives, investors abandoned the central cities, first for the suburbs and later for the sunbelt and international markets. Disinvestment inexorably eroded the sources of municipal revenues; not only were there fewer employers and employees to be taxed, but as prosperity waned, so did the sales and property values that were the main sources of municipal revenue.

A decline in public revenues only generates fiscal strain, however,

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3. For earlier discussions of the significance of structural arrangements for politics, see generally F.F. PIVEN & R. CLOWARD, *THE NEW CLASS WAR* (1982); Friedland, Piven & Alford, *Political Conflict, Urban Structure, and the Fiscal Crisis*, 1 INT'L. J. OF URB. & REGIONAL RESEARCH 447 (1977); Piven & Friedland, *Public Choice and Private Power*, in PUBLIC SERVICE PROVISION AND URBAN DEVELOPMENT 390 (A. Kirby, P. Knox & S. Pinch eds. 1984).

4. For a series of well reasoned, scholarly examples of the prevailing perspective, see generally G. STERNLIEB & J. HUGHES, *POST-INDUSTRIAL AMERICA: METROPOLITAN DECLINE AND INTER-REGIONAL JOB SHIFTS* (1975). See also PRESIDENT'S COMM'N FOR A NAT'L AGENDA FOR THE EIGHTIES, *URBAN AMERICA IN THE EIGHTIES* (1980). For examples of the reiteration of the prevailing view by the press, see BUS. WK., Oct. 12, 1974. For a critical review of this literature, see Glickman, *Urban Impact Analysis*, in 2 PUBLIC POLICY AND MANAGEMENT 105 (J. Crecire ed. 1981).

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when public officials do not make corresponding reductions in expenditures.<sup>5</sup> The evolving fiscal strains of the cities are not merely the result of a contracting municipal economy. They are also a result of expanding municipal expenditures. In the face of shrinking resources, city officials permitted city budgets to balloon.<sup>6</sup>

While fiscal strains have been endemic in the history of American cities, this particular explanation of fiscal strain has gained prominence only in the last decade. The explanations advanced prior to the recent spate of local fiscal crises were distinctly different. Some focused on the fragmentation of municipal governments, which prevented jurisdictions with expenditure needs from capturing the necessary revenues. Others stressed the misallocation of functional responsibilities among local jurisdictions that caused the mismatching of costs of providing facilities and services with revenue capacities or beneficiaries. While both of these earlier diagnoses were superficial, they did point to problems in the organization of government, and problems in the organization of government can be ameliorated by political action.

The explanation which has now become fashionable is markedly different. It is grander, and more somber. It echoes the worldview of 19th century Social Darwinism by invoking a species of natural law to explain the troubles of our cities. This natural law is the law of the market, and is presumably inexorable in its judgments. When capital disinvests from our older central cities, it does so in accord with the workings of market law. City governments and their populations must also accede to this law, and settle for less. In the words of a 1982 Reagan administration report on urban policy:

Too often the Federal Government has been called upon to intervene to insulate individuals, businesses and communities from the consequences of changes brought about by evolving technology, shifting market conditions,

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5. In the interests of brevity, this article does not delve into the ambiguities attending such phrases as "fiscal strain" or "fiscal crisis," or the appropriate statistical indicators of strain or crisis. By and large, fiscal strain refers to the circumstance when municipal operating budgets exceed current revenues and grants-in-aid, or when municipalities cannot borrow money to finance their capital budgets because they are closed out of the capital markets. However, these circumstances are not unambiguous. As the New York City fiscal crisis made clear, calculations of both revenues and expenditures are subject to manipulation. In addition, the sudden decision by the banks not to lend money to that city could not have been simply a reflection of objective fiscal conditions, which had in fact been worsening for some years. See Alcay & Bodian, *New York's Fiscal Crisis and the Economy*, in *THE FISCAL CRISIS OF AMERICAN CITIES* 30 (R. Alcay & D. Mermelstein eds. 1977).

6. I hesitate to use the term "crisis" to describe these developments. As observers have noted, the calling of a crisis is very much a political act, and should be understood as a political strategy for managing municipal fiscal strain. See Friedland, Piven & Alford, *supra* note 3.

and altered social attitudes. Intervention can do more harm than good by slowing the process of individual and collective adjustment to changes.<sup>7</sup>

In some variations of this argument, the Malthusian worldview emerges even more boldly; it is said that cities, like other natural creatures, must die when their time has come—the only question being whether government policies will enable them to die gracefully.<sup>8</sup>

While the economic base of many older central cities has indisputably eroded, and with it the revenue capacity of their municipal governments, the explanation for this development advanced by the prevailing school of thought is far from indisputable. One aspect of urban decline was the movement of industry, commerce, and wealthier urban residents to the suburbs.<sup>9</sup> The prevailing view attributes suburbanization to the unfolding of the law of the market as investors and citizens alike maximized their self-interest by leaving the central cities. Industries relocated in the suburbs largely because post-World War II linear industrial construction led investors and developers to seek the more ample space afforded by suburban locations. Residents left because the prosperity of the post-World War II period permitted them to indulge their preferences for home ownership and sideyards. Commercial investors left in response to the new and more prosperous market thereby created, and to acquire the large spaces demanded by the new style of automobile shopping. All of these developments are depicted as market phe-

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7. Quoted in N.Y. Times, June 10, 1982 at 25, col. 6. This argument is similar to that offered by a panel appointed by President Carter, which referred to the "deep-seated and inexorable historical transformation" affecting the cities. PRESIDENT'S COMMISSION FOR A NATIONAL AGENDA FOR THE EIGHTIES, *supra* note 4, at 69.

8. Baer, for example, scolds us for denying that natural death occurs in the urban realm much as it occurs in personal life, a denial he attributes to the American taboo on death and dying generally. See Baer, *On the Death of Cities*, 45 PUB. INTEREST 3 (1976). Similarly, Starr, writing in the wake of the New York City fiscal crisis, argued that the city ought to plan for its inevitable "shrinkage," rather than wait until "after doomsday has come." Starr, *Making New York Smaller*, N.Y. Times, Nov. 14, 1976, § 6 (Magazine), at 105.

9. The decentralization of corporate investment, and particularly manufacturing investment, into suburban and even rural areas is discussed in R. SCHEMMER, MAKING BUSINESS LOCATION DECISIONS 199-210 (1982). Mollenkopf discusses the impact of this movement on the location of employment:

By 1980, the suburban rings . . . contained 41.6 percent of all manufacturing employment, while nonmetropolitan areas accounted for another 33.2 percent . . . During the 1960s alone, the proportion of the blue collar labor force which worked and lived in central cities . . . declined from 47.6 percent to 35.6 percent of the total. By contrast, the percentage who lived and worked in the suburbs rose from 30.2 to 36.1 percent, while the total proportion of blue collar workers residing in the suburbs increased from 45.7 to 54.6 percent.

J. MOLLENKOPF, THE CONTESTED CITY 38 (1983). See generally, Kasarda, *The Changing Occupational Structure of the American Metropolis*, in THE CHANGING FACE OF THE SUBURBS (B. Schwartz ed. 1976). By the 1970s, even suburban growth in the older metropolitan areas had slowed. The contraction of the central cities accelerated during that decade with the ten largest cities showing population losses ranging from ten percent to more than twenty percent. J. MOLLENKOPF, *supra*, at 214.

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nomena, proceeding through the individual decisions of rational actors seeking to maximize their material self-interest.

Grand and somber though it may be, the dominant explanation of troubles in the big cities ignores as much as it explains. It ignores the role of government and politics not only in responding to economic life, but also in forming economic life. Would the industrial investors have relocated as readily without highway, water and sewer grants made available by federal policies? Or without federal tax laws that provided incentives for investment in new facilities rather than the refurbishment of old ones?<sup>10</sup> Would as many have moved, or as quickly? Would so many urban residents have been so eager to become suburban homeowners without the enormous advantage of government constructed highways?<sup>11</sup> Or without the price advantages yielded by federal low cost mortgages and federal income tax benefits?<sup>12</sup> Without highway programs, and the population shifts they encouraged, would the retail trades have been attracted to suburban locations on so large a scale? Alternatively, suppose an entirely different pattern of federal subsidies had emerged, generating large incentives for the refurbishment of older housing, mass transit, and the service infrastructure of the cities. Is it conceivable that this would have been without effect? In other words, were the developments to which urban economic decline is attributed produced by individual rational actors seeking to maximize their self-interest in relation to other rational actors, or were they produced by the same rational actors seeking to maximize their self-interest in the context of new conditions created by state policies? Was it economics or politics that produced the urban fiscal crisis? Or, more reasonably, was it the interaction of economics and politics, in a society in which economy and polity have become ever more densely intertwined, each both cause and effect of the other?

Consider also the more recent shift of investment to the sunbelt. This

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10. See B. Berry, *Inner City Futures*, (paper presented to the Conference on Dynamics of Modern Industrial Cities, Sept. 28, 1978) (on file with the *Yale Law & Policy Review*) ("Historically, perhaps the most consistent bias in the federal tax code has been the favoritism given to investment in the improvement and repair of existing structures.").

11. Mollenkopf has written of the impact of the new transportation networks on the development of the Boston and San Francisco metropolitan areas. In Boston, the suburban population increased by 50 percent after Route 128 was opened in 1952; the freeway also attracted the growing electronics industry. Sixty-eight new plants with 4.5 million square feet of space were built along the freeway between March 1954 and June 1956 alone. In San Francisco, the federally funded Bay Bridge and Golden Gate Bridge made possible an even stronger spurt of suburban growth, with suburban employment increasing by 38 percent in the 1950's. J. MOLLENKOPF, *supra* note 9, at 142-144.

12. For an exhaustive examination of the differential impact of federal housing subsidies, including income tax write-offs for private homeowners, see H.J. AARON, *SHELTER AND SUBSIDIES* 53-73 (1972).

is another development often attributed to a market calculus. To be sure, labor costs and tax costs were typically lower in sunbelt locations. The long-term movement of labor-intensive manufacturing, beginning with the relocation of the textile industry at the end of the 19th century, is easily understood in these terms. But even that historic trend cannot be isolated from key government policies which helped to account for regional disparities in labor costs. In particular, the use of cheap labor in the South owed much to the caste system, and the caste system was as much an expression of politics as of economics. Blacks were kept in place by state and local laws which disenfranchised and segregated them,<sup>13</sup> and by state and local government violence which curbed challenges to caste boundaries. Furthermore, the caste policies of the southern states survived for nearly a century because they were tacitly and sometimes explicitly endorsed by the national government.<sup>14</sup>

National labor policy has played a similar role in ratifying regional disparities in labor costs. As the unionization of industrial workers spread in the aftermath of the passage of the National Labor Relations Act in 1935, states in low-wage regions undermined the rights granted labor under the Act with state right-to-work laws, which were then sanc-

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13. These laws were not limited to the South, of course. See, for example, the discussion by the New Jersey Supreme Court of the effects of exclusionary zoning in *Southern Burlington County NAACP v. Mt. Laurel Township*, 92 N.J. 158, 210-11 n.5, 456 A.2d 390, 415-16 n.5 (1983):

... since World War II, there has been a great movement of commerce, industry, and people out of the inner cities and into the suburbs. At the same time, however, exclusionary zoning made these suburbs largely inaccessible to lower income households. Besides depriving the urban poor of an opportunity to share in the suburban development, this exclusion also increased the relative concentration of poor in the cities and thereby hastened the flight of business and the middle class to the suburbs. The vicious cycle set in as increased business and middle-class flight led to more urban decay, and more urban decay led to more flight, etc.

14. While the United States Supreme Court, at least during Earl Warren's tenure as Chief Justice, was closely identified with the struggle to end legalized discrimination, the Supreme Court in the late 19th and early 20th centuries also accepted southern caste policies. See, e.g., *Cumming v. Richmond County Bd. of Educ.*, 175 U.S. 528 (1899) (states had the right to maintain their school systems as they saw fit, even where a school district did not provide equal facilities for black children); *Williams v. Mississippi*, 170 U.S. 213 (1898) (state codes requiring that voters read and interpret any section of the state constitution to the satisfaction of the voting official were not unconstitutional because they did not on their face discriminate against blacks); *Plessy v. Ferguson*, 163 U.S. 537 (1896) (upholding Louisiana law mandating separate but equal accommodations in train coaches travelling within the state); *Civil Rights Cases*, 109 U.S. 3 (1883) (Congress may not directly prohibit discrimination in accommodations).

For scholarly discussions of these cases, see Bernstein, *Case Law in Plessy v. Ferguson*, 47 J. NEGRO HIST. 192 (1962); Bernstein, *Plessy v. Ferguson: Conservative Sociological Jurisprudence*, 48 J. NEGRO HIST. 196 (1963); Waite, *The Negro in the Supreme Court*, 30 MINN. L. REV. 219 (1946); Note, *Is Racial Segregation Consistent with Equal Protection of the Laws?* *Plessy v. Ferguson Reexamined*, 49 COLUM. L. REV. 629 (1949); Note, *Segregation in Public Schools—A Violation of "Equal Protection of the Laws"*, 50 YALE L.J. 1059 (1947).

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tioned by the national government in the Taft-Hartley Act of 1947.<sup>15</sup> The predictable result was that unionization was impeded in the South, and wages consequently remained lower. The effects are still evident today.<sup>16</sup>

The impact of these longstanding trends in regional economic development has been perceptible since the turn of the century, when the textile mills of New England began to move south to take advantage of lower labor costs and a more docile labor force. While the effects on particular towns were sometimes considerable, the departure of some low-wage and intensely competitive industries was offset for a long period by the fantastic expansion of other industries. Only with the slowdown of industrial expansion in the late 1960s was the impact of regional shifts on the older cities felt more deeply. New national policies, especially the expansion of defense related industries in the South, the concentration of military installations in the sunbelt, and the growth of the aerospace and electronics industries, accelerated the trend. All of these industries are critically dependent on the government policies that support them and promote their regional concentration.<sup>17</sup> Furthermore,

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15. Nothing in this subchapter shall be construed as authorizing the execution or application of agreements requiring membership in a labor organization as a condition of employment in any state or territory in which such execution or application is prohibited by state or territorial law.

Labor Management Relations (Taft-Hartley) Act, § 101, 29 U.S.C. § 164(b) (1982) (amending National Labor Relations Act, Pub. L. No. 74-198, § 14, 49 Stat. 449, 457 (1935)). See *Lincoln Federal Labor Union v. Northwestern Iron Metal Co.*, 335 U.S. 525 (1949) (upholding the constitutionality of right-to-work laws). See generally, P. SULTAN, *RIGHT-TO-WORK LAWS: A STUDY IN CONFLICT* (1958).

For an example of a current right-to-work provision, see the Arizona Constitution:

No person shall be denied the opportunity to obtain or retain employment because of non-membership in a labor organization, nor shall the State or any subdivision thereof, or any corporation, individual or association of any kind enter into any agreement, written or oral, which excludes any person from employment or continuation of employment because of non-membership in a labor organization.

ARIZ. CONST. art. XXV.

16. The percentage of workers who are union members in the nineteen "right-to-work" states is only half the percentage in the remaining states. See F.F. PIVEN & R. CLOWARD, *POOR PEOPLE'S MOVEMENTS 169-70* (1977). For data illustrating the wage and unionization differentials between older industrial cities in the Northeast and Midwest on the one hand, and growing cities in the Southwest on the other, see J. MOLLENKOPF, *supra* note 9, at 223.

17. This role of federal programs in stimulating development in the Southwest is not just a recent phenomenon. One commentator has attributed the initial growth of San Diego, Phoenix, San Antonio, and the Santa Clara Valley to federal expenditures on military production in those areas during World War II. J. MOLLENKOPF, *supra* note 9, at 217-18. For a discussion of the more recent impact of federal contracts on regional shifts in growth, see Watkins and Perry, *Regional Change and the Impact of Uneven Urban Development*, in *THE RISE OF THE SUNBELT CITIES* 19, 46-51 (D. Perry & A. Watkins eds. 1977). The shift in investment was sectoral as well as regional. Investment moved into new product lines requiring skills that workers from the old manufacturing industries did not possess. Those workers would therefore have been displaced even if they had been able to follow capital to the new homes of these industries. See Walton, *The Internationalization of Capital and Class Structures in the Advanced*

the ease with which industries less directly dependent on government expenditures shifted investment to the sunbelt owed much to the fact that a costly public infrastructure, particularly highways and water projects, was being financed by the federal government.<sup>18</sup>

The combined effect of federal programs has been a decline in the components of cities' fiscal capacity. Manufacturing jobs in the central cities have dropped sharply, a drop only partially offset by the expansion of the service sector. Meanwhile, manufacturing jobs in non-metropolitan areas and in the South have continued to increase.<sup>19</sup> Population and personal income have shifted in a parallel pattern, marking a trend that the 1980 census indicates is accelerating.<sup>20</sup>

The federal government has become so involved in the American economy that it is no longer possible to account for any major economic development without reference to public policy. The economic base of the older cities is contracting, and with it the revenue capacities of central city governments. But this development cannot be understood entirely as the consequence of market processes, operating according to market laws. There were market actors, to be sure, but these actors made their decisions in the context of an economy in which government programs had come to play an enormous role. In that sense, the market had come to be penetrated by government, and therefore by politics. Nor was it simply that market actors took advantage of government policies. Assuming that they were, as the market perspective tells us, rational and self-seeking, then it is reasonable to presume that they also

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*Countries*, in *WORLD EXCHANGE AND DOMINATION* (A. Portes & J. Walton eds. 1980). The low skill assembly jobs of the mass production industries largely shifted to the Third World. See Reich, *The Next American Frontier*, ATL. MONTHLY, April, 1983 at 97-108.

18. For analysis of the impact of federal investments in highways and water and sewer projects on the pattern of regional economic development, see 3 S. BARRO, *THE URBAN IMPACTS OF FEDERAL POLICIES* (1978); Watkins, *Good Business Climates: The Second War Between the States*, DISSENT, Fall, 1980, at 476.

19. By the 1970s, the South was losing ground to the Caribbean and South Asia in the competition for new investment in labor intensive manufacturing. As Bluestone and Harrison have shown, even this shift can be attributed in part to American tax and tariff provisions. They have concluded that because of the peculiarities of the American tax code, the effective tax on the foreign earnings of U.S. corporations in 1972 was only five percent. Provisions in the U.S. Tariff Code have similar effects. Some federal programs, including the Overseas Private Investment Corporation (see 22 U.S.C. § 2191-94 (1984)), the Commodity Credit Corporation (see 15 U.S.C. § 714 (1982)), and the U.S. Export-Import Bank (see 12 U.S.C. § 632 (1982)), actually subsidize foreign investment. B. BLUESTONE & B. HARRISON, *THE DEINDUSTRIALIZATION OF AMERICA* 129-33 (1982). See also P. MUSGRAVE, *UNITED STATES TAXATION OF FOREIGN INVESTMENT INCOME* 1-162 (1969).

20. Between 1969 and 1976, investment in new plants in the United States created about 3.6 million jobs each year, while plant closings wiped out 3.2 million jobs each year. The pattern varied sharply within and among regions, with the Northeast and Mid-Atlantic showing a net loss of jobs and a parallel loss of population. B. BLUESTONE & B. HARRISON, *supra* note 19, at 27-34, app. Table A.1 (jobs); *id.* at 99, Table 4.2 (population).



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promoted the policies which gave them economic advantage.<sup>21</sup>

While these were market actors, they had moved from a sphere where action is viewed as governed by economic laws to a sphere where action is understood as voluntarist. Moreover, state leaders were not merely reactive in this process. They were actors in their own right, filtering their responses to the demands of market interests in terms of their own distinctively political objectives.<sup>22</sup> The conception of this complex interplay of politics and markets as merely the playing out of market forces is not only analytically deficient, but also intensely ideological. By defining politics as economics, the prevailing view attempts to define the policies which shaped the circumstances of our cities as beyond the reach of democratic political influences.

### B. *The Logic of Increased Compensatory Programs*

The other aspect of urban fiscal strain acknowledged by the prevailing explanation concerns patterns of municipal expenditure that failed to adjust to diminishing municipal resources. A contracting tax base alone would produce a multitude of problems for the people of a city, as municipal jobs and services were cut back. Declining revenues only produce fiscal problems, however, when jobs and services are not correspondingly reduced, and expenditures outrun revenues. Expenditures in the older cities obviously did outrun revenues, typically even rising while the tax base was contracting. Within the framework of the dominant explanation of the urban fiscal crisis, this phenomenon is viewed as perverse, since avowedly economic realities were ignored by political actors. In other words, the facts of contracting municipal resources are seen as economic facts, and therefore rock-hard and inexorable. By contrast, the perversity which led cities to spend more than they took in reflects merely political facts, and political facts are depicted as "soft" because they derive from willful human decisions.<sup>23</sup>

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21. This presumption is confirmed by existing records of corporate lobbying activities. *See* E.E. SCHATTSCHEIDER, *POLITICS, PRESSURES AND THE TARIFF* (1935); G. MCCONNELL, *PRIVATE POWER AND AMERICAN DEMOCRACY* (1966) (accounts of business political influence). *See also* Salamon & Siegfried, *Economic Power and Political Influence: The Impact of Industry Structure on Public Policy*, 71 *AM. POL. SCI. REV.* 1026-43 (1977) (empirical approach to relationship of business to political power). *See generally* A. FRITSCHLER & B. ROSS, *BUSINESS REGULATION AND GOVERNMENT DECISION-MAKING* (1980).

22. *See* Piven, *The Great Society as Political Strategy*, in *THE POLITICS OF TURMOIL* 271-83 (R. Cloward & F.F. Piven eds. 1974) (describing state leaders as actors with distinctive purposes arising from the exigencies of governance). *See also* C. LINDBLOM, *supra* note 1, at 122-26.

23. An important line of argument and research attempts to interpret expenditure decisions in terms of quasi-economic models. This public choice literature tries to interpret patterns of municipal expenditure and taxation as the result of the influence of voter-taxpayers who will elect the officials that provide the preferred combination of services and taxes, or

That expenditures reflected politics is neither remarkable nor reprehensible. The public budget allocates both public funds and public authority, which represent the means to power, wealth, security, and/or survival for different groups. Thus, it is always the focus of group contention.<sup>24</sup> What was remarkable was not that expenditures reflected politics, but rather that new groups were entering the contest, and pressing for increased municipal expenditures. The new groups had become significant political actors because changes in the agricultural economy—stimulated by still other federal policies—had thrust them first into the cities and then into the electoral representative system. These new contestants were the people who ultimately bore the brunt of the shifts in investments spurred by federal policies.

Economic change typically generates population movements as well as shifts in the circumstances of populations, with the result that new political groupings and new political claims emerge. This pattern characterized the American experience in the post-World War II period. American agriculture, particularly the historically labor-intensive agriculture of the South, threw off excess laborers who, having been economically displaced by modernization, had little alternative but to migrate to the big cities.<sup>25</sup>

Like all major contemporary economic developments in the United States, these developments in agriculture did not occur simply as a result of market and technological processes. Federal subsidies and loans had much to do with the advance of mechanization.<sup>26</sup> Mechanization, in

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move to a locality that more closely matches their preferences. Fiscal strain or crisis in this model is attributed to various imperfections in the market mechanisms that translate the preferences of voter-taxpayers into public policy. *See, e.g.*, R. MUSGRAVE, *THE THEORY OF PUBLIC FINANCE* (1959); P. PETERSON, *CITY LIMITS* (1981); Tiebout, *A Pure Theory of Local Expenditures*, in *THE NEW URBANIZATION* (S. Greer ed. 1968).

24. Piven & Friedland, *supra* note 3. With these assertions I put myself squarely into the camp of what Peterson calls "bargaining models" of local tax and expenditure policies. P. PETERSON, *supra* note 23. Peterson develops what he calls a "unitary model" which treats "internal conflicts and competing preferences within a political system" as "theoretically irrelevant." He argues that municipal expenditure decisions can be derived from a series of "environmental" variables which constrain the choices of policy-makers striving to increase the economic prosperity of the local community. One problem with this model is precisely that it is "unitary;" it posits a unity of interest among urban residents in policies that promote economy productivity, even though the effects of particular forms of economic growth on different groups in the urban population are clearly variable. Another problem is that the market calculus he asserts to be the basis of municipal policy would presumably preclude policies that lead to fiscal strain, except as the idiosyncratic result of imperfect information.

25. *See* PRESIDENT'S NATIONAL ADVISORY COMMISSION ON RURAL POVERTY, *THE PEOPLE LEFT BEHIND* (1967) (summary of the displacement effects of agricultural modernization during this period); T. DUNBAR, *OUR LAND TOO* (1969) (detailed study of agricultural displacement in the southern rural economy).

26. *See, e.g.*, Declaration of Policy in the Amendment to the Bankhead-Jones Act of 1935, which states:

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turn, not only rendered much agricultural labor superfluous, but also stimulated the enlargement of agricultural holdings so that small farmers were also displaced.<sup>27</sup> Meanwhile, federal supports for idle land aggravated the tendency toward labor surplus, since profits could be made without cultivation.<sup>28</sup> Federal welfare policies gave the agricultural states license to effectively refuse income supports to the local unemployed,<sup>29</sup> helping to ensure that displaced tenants, farmers and sharecroppers would make their way to the cities. These conditions combined to accelerate the migration of the displaced agricultural workforce, largely black and southern, to the older cities whose economies could not absorb them. Between 1940 and 1966, 3.7 million blacks left the South for the industrial North, most of them going to the large central cities.<sup>30</sup> By the end of this period, blacks were the most urban people in the United States.<sup>31</sup>

The vast migration of blacks, and of Hispanics who were being displaced during the same period, occurred at the same time that millions of older urban residents were leaving the central cities in response to the

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. . . the Secretary of Agriculture is authorized and directed to conduct and to stimulate research . . . relating to the improvement of the quality of, and the development of new and improved methods of the production, marketing, distribution, processing and utilization of plant and animal commodities . . . .

Amendment to the Bankhead-Jones Act of 1936, Pub. L. No. 733, Ch. 966, 60 Stat. 1082, 1083 (1946).

27. Between 1940 and 1960 the number of farms in the South dropped by half, while the size of the average farm increased from 123 to 217 acres. BUREAU OF THE CENSUS 460-61 (1976). See also PRESIDENT'S NATIONAL ADVISORY COMMISSION ON RURAL POVERTY, *supra* note 25, at ix-x.

28. See Agriculture Act of 1956, Pub. L. No. 540, Ch. 327, 70 Stat. 188 (1956).

29. The AFDC program, Social Security Act of 1935, Pub. L. No. 87-543, 49 Stat. 60 (1935), as amended, 42 U.S.C. § 601-10 (1981), was a prime example. At the time this was the most important program available to agricultural workers who were not covered by unemployment insurance. The states not only were permitted to set grant levels, but also were able to pass a host of exclusionary rules. F.F. PIVEN & R. CLOWARD, *REGULATING THE POOR*, 205-06 (1971). In the South this license was effectively used to exclude most of the black poor from the program until well into the 1960s. For example, during the 1950s, despite deepening distress among displaced agricultural workers, the AFDC rolls in the South did not grow. To the contrary, this was the period when Southern states were enacting such new exclusions as "suitable home" and "employable mother" laws. See, e.g., 1958 Miss. Gen. Laws 943 (1958) ("suitable homes"); La. Rev. Stat. Ann. § 233 (West 1963) ("suitable homes" and illegitimacy); ALABAMA MANUAL FOR ADMINISTRATION OF PUBLIC ASSISTANCE, Part I, Ch. 11, § 6 (1964) ("man-in-the-house").

30. White agricultural workers were also displaced during this period, but they were not as likely to migrate to the biggest cities, because smaller cities and towns were not as inhospitable to them as they were to black migrants. Moreover, displaced white agricultural workers were not as likely to be denied welfare supports, in part because the states which relied on a white agricultural labor force tended to have less restrictive welfare practices.

31. In 1940, only half of all blacks lived in urban areas. The proportion reached 62 percent in 1950, 73 percent in 1960, and 80 percent in 1965. CENTER FOR RESEARCH AND MARKETING, INC., *THE NEGRO POPULATION: 1965 ESTIMATES AND 1970 PROJECTIONS* 8 (1966).

overall shift of investment. The enormous turnover in population was bound to cause political repercussions, simply because large shifts in population always undermine existing patterns of political organization. Older patterns of leadership weaken as established constituents shrink in numbers and influence, while new groups bring new demands and different styles of organization and action.

American cities have always had to cope with the instabilities generated by massive population change. In the 19th century, a distinctive and remarkable mode of political organization developed to deal with the potentially unsettling effects of generations of new migrants: the big city political machine. Machine politics meant that some of the authority and wealth of a municipality could be converted into favors, friendship, and representation that cultivated the allegiance of diverse immigrant groups. By World War II, however, most big city machines had been greatly weakened or even destroyed as a result of the efforts of municipal reformers and the subsequent influence of federal grants-in-aid. City governments had by and large become "clean" as bureaucratic politics replaced machine politics. The reform battles that resulted in the elaboration of bureaucratic structures and rules weakened machine bosses by depriving them of control of municipal jobs and municipal policies, and therefore of the patronage on which they depended.<sup>32</sup> But bureaucratization also meant that the jobs and services which had earlier been used to cultivate allegiance among newcomers were no longer easily dispensed to new groups. The operation of the bureaus became constrained by civil service regulations, and later by union contracts. The protracted conflict in New York City between minority groups and the school system, and particularly between minority groups and organized teachers, for control of school jobs and school policy illustrates this development. The challenge by minorities was necessarily a challenge to the rules of the educational bureaucracy, and to the contract of the United Federation of Teachers.<sup>33</sup> It was not that the bureaucratization of the goods, services and honors controlled by city governments had depoliticized municipal administrations. Rather, bureaucratization provided a set of devices which protected the stakes of groups who were already the beneficiaries of municipal largesse, and

32. More extensive discussions of the bureaucratization of city politics can be found in Lowi, *Foreword* to H. GOSNELL, *MACHINE POLITICS: CHICAGO MODEL* ix (1968); Piven, *The Urban Crisis: Who Got What, and Why?* in *THE POLITICS OF TURMOIL* 314 (R. Cloward & F.F. Piven eds. 1974); Shefter, *New York City's Fiscal Crisis*, 48 *PUB. INTEREST* 98 (1977).

33. For a case study of this confrontation, see *CONFRONTATION AT OCEAN HILL-BROWNSVILLE* (M. Beruba & M. Gittell eds. 1969).

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thus impeded the use of municipal resources to integrate the post-World War II newcomers.

Political problems of this scale in the big cities inevitably reverberate upward to the federal government. The mechanisms of transmission are not mysterious. Urban business interests lobby, and urban political leaders carry weight because of their influence on the votes of organized urban constituencies in national elections. The first main response of the federal government to the pressures generated by the economic shifts that were weakening the urban economy on the one hand, and bringing agricultural migrants to the cities on the other hand, was the urban renewal program,<sup>34</sup> a response that suited the interests of both downtown businessmen and city mayors. Federal subsidies were made available for the acquisition of land in "blighted" central city areas; this land was subsequently resold to private developers at below market rates.<sup>35</sup> That urban renewal came to be known as "black removal" was not an accident, for the designation of blighted areas for commercial or residential redevelopment was frequently influenced by the poverty and the race of the residents of these areas. Downtown businessmen and mayors could unite around a program which would return wealthier customers and taxpayers to the urban core. At the same time, urban renewal would remove the newcomers whose enlarging presence threatened to accelerate white flight and cause fissures in urban political organizations that could not easily incorporate the minorities, yet could not, as their number grew, continue indefinitely to exclude them either.

Given the powerful economic forces and large government programs that were combining to transform the cities and their populations, urban renewal was not equal to its task. Indeed, urban renewal exacerbated the political problems of municipal officials. On the one hand, it did not reverse the patterns of in- and out-migration that were weakening the big city political organizations. On the other hand, renewal itself became a major source of grievance to the largely black and Hispanic populations who were displaced. Political instabilities in the nation's largest cities took form in the massive electoral defections by blacks from the Democratic Party in the presidential elections of 1956,

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34. Housing Act of 1964, Pub. L. No. 88-560, 78 Stat. 769 (codified as amended in scattered sections of 12, 15, 20, 40, and 42 U.S.C.).

35. For discussion of urban renewal as a strategy to promote urban economic growth, see generally Harvey, *The Political Economy of Urbanization in Advanced Capitalist Societies*, in *THE SOCIAL ECONOMY OF CITIES* 119 (G. Gappert and H. Rose eds. 1975); Mollenkopf, *The Post-War Politics of Urban Development*, 5 *POL. & SOC'Y* 247 (1975); S. Elkins, *Cities Without Power* (paper presented at the Conference on Urban Choice and State Power, Cornell University, June, 1977) (on file with the *Yale Law & Policy Review*).

and their rather reluctant return in the election of 1960.<sup>36</sup> This development signalled that the newcomers were becoming a political force, pressing their own claims in city and national politics. But both the claims they made and the responses they received were shaped by complex conditions that were not of their own choosing.

If the continued incumbence of local political leaders was best secured by excluding the newcomers, the political fortunes of the national Democratic party were not, for the national party depended on large pluralities from the biggest cities to carry the industrial states. Accordingly, the Democratic regimes of the 1960s tried to cope with the signs of eroding support in their big city strongholds with a series of programs that compensated for municipal political rigidities and a weakening economy with federally funded services and jobs oriented to the new and politically volatile populations. Beginning in 1962, a series of new programs were proposed by the White House and passed by the Congress, each designed to ameliorate some social problem, such as juvenile delinquency, community mental health, poverty, educational deprivation, or blighted neighborhoods.<sup>37</sup> These programs gave the already hard-pressed cities new monies, but most of the funds were tagged for the creation of new municipal jobs or services and thus actually increased municipal expenditures, albeit with the benefit of federal grants-in-aid.<sup>38</sup>

The broad anti-poverty and anti-racist rhetoric associated with the federally initiated programs ensured that the demands of ghetto populations would not remain neatly confined to those programs, however. A number of the programs, particularly those included in the Economic

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36. A Gallup Poll taken after the 1956 election concluded that "of all the major groups in the nation's population, the one that shifted most to the Eisenhower-Nixon ticket . . . was the Negro voter." Moreover, there was a sharp decline in black turnout, particularly in the northern cities. Whereas Stevenson won 80 percent of the black vote in 1952, he won only 60 percent in 1956. Some—but only some—of those voters returned to Democratic columns in 1960, when Kennedy won 68 percent of the black vote, helping him to carry a number of key industrial states by very narrow margins. See F.F. PIVEN & R. CLOWARD, *supra* note 16, at 211-229 (1977).

37. See, e.g., Community Mental Health Centers Act, 42 U.S.C. § 2681-2687 (amended 1975); Higher Education Facilities Act of 1963, 20 U.S.C. § 701 *et. seq.* (current version at 20 U.S.C. § 1132a *et. seq.*) (1976); Juvenile Delinquency and Youth Offenses Control Act of 1961, 42 U.S.C. § 2541-2548 (expired 1967).

38. Brown and Erie present persuasive evidence that the federal programs created during this period triggered a large expansion of black public employment. The expansion occurred mainly at the state and local level, principally in social welfare programs created or expanded in response to federal legislation. They estimate the aggregate employment impact of federal initiatives at two million new jobs, almost all of which were state and local. Moreover, fully 55 percent of the net increase in employment for blacks that occurred between 1960 and 1976 was in the public sector. Much of it was concentrated in state and local programs stimulated by the federal government. See Brown & Erie, *Blacks and the Legacy of the Great Society*, 29 PUB. POL'Y 299, 305 (1981).

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Opportunity Act of 1964 and called "the war on poverty," were backed by only limited funds, but they provided significant federal ideological legitimation of minority group claims. This legitimation was used by the new groups to press their claims for services, jobs, and honors against traditional municipal agencies. The much-maligned federal policies which provoked this response came to be known as the Great Society.<sup>39</sup>

To compensate for the failures of municipal politics turned out to be no simple matter, however, because those failures were not simply the vestigial results of bureaucratic arrangements. Rather, these bureaucratic arrangements reflected still active and significant local political forces. Federal policies provided compensation for new groups and prodded them to make demands on the regular apparatus of city government. Older groups with entrenched claims, particularly civil service employees whose interests were directly challenged by concessions to blacks, inevitably responded with contending claims. Demands on city governments escalated from all sides, and insecure urban political officials acceded to demands on all sides. Contention undermined urban regimes, and the ensuing weakness of urban governments in turn incited and strengthened the claimants. Consequently, contending claims on municipal budgets escalated rapidly.<sup>40</sup>

The increase of popular claimants did not stem the tide of concessions to traditional beneficiaries of city government largesse, such as the real estate and construction industries. Indeed, instability may well have increased the number and size of tax concessions and subsidies granted to local business supporters. Insecure politicians are more eager, not less, for business sector support and contributions.<sup>41</sup> Continuing federal subsidies for urban renewal also committed municipal governments to provide "in-kind" contributions in the form of city services, capital improvements and property tax rebates. Such drains on municipal

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39. For a more extensive development of this political analysis of the Great Society Programs, see Piven, *supra* note 22, at 271-83; Piven, *The New Urban Programs*, in *THE POLITICS OF TURMOIL* 284-313 (R. Cloward & F.F. Piven eds. 1974).

40. For a more complete discussion of the political pressures underlying rising municipal and state expenditures, see Piven, *supra* note 32. See also Kantor & David, *The Political Economy of Change in Urban Budgeting Politics: A Framework for Analysis and a Case Study*, 13 *BRIT. J. POL. SCI.* 251, 269 (1983).

41. The fissures that have developed recently in the Chicago machine are bringing some of these relations with business to light. Edward R. Vrdolyak, who is leading the City Council's fight against Mayor Harold Washington, is also head of the Building and Zoning Committee which decides what real estate developers are granted zoning variances and city property leases. Another alderman was recently on trial for 33 counts of selling licenses and jobs in the sheriff's department. In May, 1983, the *New York Times* reported that ten former aldermen were in prison for such practices. As one Council member commented, "[t]here is a lot of money involved in running the City Council . . . The cable television franchise alone involves millions of dollars." *N.Y. Times*, May 14, 1983, at 7, col. 4.

budgets generally attracted less public fanfare than the expansion of jobs and services. Even where opposition to redevelopment provoked publicity, municipal contributions to urban redevelopment could be seen as eminently reasonable, explained and perhaps understood as expenditures which would ultimately yield higher tax revenues. As it turned out, however, these revenue increases rarely offset municipal investments. Furthermore, the leverage exerted by such investment interests over city officials increased precisely because the municipal tax base was contracting. In the context of ongoing large scale capital flight, the threat of disinvestment became an even more powerful political weapon to wield for tax and subsidy concessions.<sup>42</sup>

Federal policies therefore again intruded on municipal politics, this time on a very large scale. These policies were different from those that had previously undermined urban economies and promoted rural migration to the cities. The new policies were an effort to respond to the disturbances and demands generated by the victims of economic change. These policies increased local fiscal capacities through grants-in-aid for expanded public jobs, income transfers, and social services rather than by increasing the cities' ability to raise revenues from their own sources. The federal policies were designed to compensate urban governments and urban residents for economic decline. At the same time, however, they stimulated greater demands on revenue-poor city governments.<sup>43</sup>

From a fiscal perspective, the policies of compensation had perverse effects on municipal budgets. But from a political perspective, it was the investment policies that had perverse effects on municipal and national politics. Government policies that support investment are often assumed also to support the economic growth that redounds to the benefit of the entire population by generating jobs and income. When investment has these effects, the policies which suit investors also work to win votes.<sup>44</sup> But the policies which promoted new investment in recent de-

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42. The reluctance of local governments to raise taxes and expenditures to offset cuts in federal programs in 1981 and 1982 evidences this pressure, as does the eagerness of some state governments to use the increase in revenues generated by the current economic recovery to justify the proposal of additional tax cuts. See Quint, *Economic Scene: Local Fiscal Difficulties*, N.Y. Times, May 11, 1983, at D2, col. 1-3. See also D. Klingman, *The Impact of Changing Intergovernmental Relations on State and Local Expenditures and Revenues* (paper presented at the Annual Meeting of the American Political Science Association, Sept. 1982) (on file with the *Yale Law & Policy Review*).

43. From 1960 to 1975, state and local government receipts rose by about 11% annually, while the gross national product increased at an average annual rate of only 7.7%. As a consequence, local government's share of GNP rose from 9% to 14%. Quint, *supra* note 42, at D2, col. 1-3.

44. The conditional and uncertain impact of economic development on popular political support for local politicians is discussed in Piven & Friedland, *supra* note 3.



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causes also caused disinvestment in older urban centers. This, in turn, led to the contraction of employment and income in the population centers that were the main base of the Democratic Party. Several of these policies promoted disinvestment from the United States itself, as capital took advantage of a stable international monetary framework and favorable tariff laws by moving overseas. The result was a shift of capital's job and income-generating capacity beyond the boundaries of the national state.<sup>45</sup>

On their face, these developments were perverse. It is not that the compensatory programs were illogical, as some critics have charged.<sup>46</sup> They were very logical; it is just that the logic was political. Those bearing the costs of regional economic change caused by federal policies exerted sufficient pressure on the government to force the creation or expansion of public programs that moderated some of the costs of economic change. There was also a political logic underlying the programs that promoted economic relocation and development. But if each set of policies was in some sense logical, in combination they were illogical. As both sorts of government policy developed, the results made little fiscal sense, and even brought some cities to the brink of bankruptcy.

## II. *Political Structure and Fiscal Crisis Politics*

Analyzed apart from the concrete institutional arrangements of any particular polity, the competing political interests which gave rise to such different lines of state policy could be expected to battle. Each political interest group was struggling to push policy in a direction antagonistic to the interests of the other. In another type of polity, the contradictory effects of investor policies and compensatory policies might have produced political conflict between a mobile capital and its diverse victims. In the American polity, however, open conflict did not emerge. Instead, the urban political battles that erupted were conflicts among the diverse groups of victims—between blacks, Hispanics and whites, or between employees of municipalities, residents of urban ghettos.

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45. There has been substantial debate about the net effects of the internationalization of American capital in terms of domestic employment. For an extensive review of the relevant literature, see Walton, *The Internationalization of Capital and Class Structures in the Advanced Countries: The Case of the United States*, in *WORLD EXCHANGE AND DOMINATION: ESSAYS IN THE POLITICAL ECONOMY OF DEVELOPMENT* (A. Portes & J. Walton eds. 1980). Walton concludes that while internationalization did generate new professional and managerial employment in the United States, the net effect was a reduction in blue collar employment.

46. For example, Daniel Patrick Moynihan, one of the most outspoken critics of the Great Society, charged that the programs were simply inept. Because of the foolish counsel of liberal intellectuals, said Moynihan, "[t]he government did not know what it was doing." D. MOYNIHAN, *MAXIMUM FEASIBLE MISUNDERSTANDING* 170 (1969).

toes and taxpayers. The potential for broader conflict was blunted by the numerous concessions made on both sides of the main fault lines of the conflict. These concessions in turn placed a severe fiscal burden on the older cities.

What accounts for this particular pattern of demand and response in American politics, a pattern that produced considerable fiscal strain, but little political conflict? Elsewhere, in collaboration with Roger Friedland, Robert Alford, and Richard Cloward, I have proposed that certain longstanding structural features of the American polity help to account for the peculiarly fragmented, even incoherent, pattern of political demands.<sup>47</sup> One such feature is the historic tendency toward the centralization of policies crucial to investors when these policies become the object of popular challenge in the localities. This centralization is coupled with a tendency toward the decentralization of popularly oriented policies, even when they are initiated by the federal government. Some of the underlying reasons for this dual pattern were apparent as early as during the creation of a national government by post-revolutionary elites in the 18th century. The Founders were anxious about popular mobilizations occurring in the states, particularly over the demand for cheap money and a moratorium on the collection of debts. As one commentator has written, "[w]hat bothered the Federalists most about the state governments was their failure to protect the rights of property, and in particular the rights of creditors."<sup>48</sup> The creation of a strong national government solved this problem because ordinary citizens could not organize effectively on the national level, while commercial banking and landowning elites could. The usefulness of a multi-level federal structure in promoting business interests was again evident in the late 19th and early 20th centuries when businessmen reformers, stymied at the municipal level by political machines, obtained the policies they needed at the state level. To some extent, then, the historic tendency toward the centralization of business politics reflected the greater capacity of business elites for supra-local influence, a capacity exercised when business interests were threatened by popular local mobilizations. Corporate interests were following the classic strategy of centralizing to increase their influence.

As the American economy expanded, and as American corporations began to operate in national markets, however, another motive for cen-

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47. See F.F. PIVEN & R. CLOWARD, *supra* note 3; Piven & Friedland, *supra* note 44; Friedland, Piven & Alford, *supra* note 3.

48. Morgan, *The Argument for the States*, NEW REPUBLIC, April 28, 1982, at 29-34. See also C. BEARD, AN ECONOMIC INTERPRETATION OF THE CONSTITUTION OF THE UNITED STATES (1913).

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tralization emerged. Businessmen required consistent national policies to facilitate far-flung business operations. The need for consistency was a fundamental motive underlying the movement of corporate influence to Washington in the Progressive period. They used their influence with the federal government to overturn state laws regulating the railroads and granaries won in states where farmer populists were strong.<sup>49</sup>

Meanwhile, government programs oriented toward ordinary voters, including most neighborhood and social welfare programs, were typically decentralized. Authority to run these programs remained with local and state governments, at least as long as the political reverberations of popular discontent was largely confined to the local polity. Accordingly, the localities remained the main focus of popular politics, because the existence of these programs attracted and organized popular political participation. Even when the massive political instabilities and local revenue shortfalls of the Great Depression generated sufficient national political pressure to force the inauguration of new federal support programs, much of the administrative authority was ceded to local and state governments.<sup>50</sup>

However, despite the concentration of mass political participation on the local level, local governments are also vulnerable to business pressures. Historically, in fact, they have been acutely vulnerable to threats of capital flight precisely because such governments are territorially bounded, while capital is not.<sup>51</sup> But the potential for sharp conflicts over policies stemming from this vulnerability of local governments to both investors and voters has been dulled by the progressive organizational fragmentation and bureaucratization of local governments. Not only are investment-oriented policies housed in different structures than popularly oriented policies, but these agencies have, over time, been

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49. G. KOLKO, *THE TRIUMPH OF CONSERVATISM* (1963). See also C. LINDBLOM, *supra* note 1, at 204-05.

50. For example, when unemployment compensation was established by the Social Security Act of 1935, the states had great latitude in financing and administering the program. Each state continues to have different benefit provisions today. See J. PATTERSON, *THE NEW DEAL AND THE STATES* 23, 91 (1969).

51. A number of analysts have argued that the inability of the local polity to control the movement of capital and people across its boundaries inevitably means economic concerns will dictate local political decisions. David and Kantor rely on the observation that local polities cannot control labor and capital flows to assert that only the federal government can afford to pursue meaningful redistributive policies. See David & Kantor, *Urban Policy in the Federal System*, 16 *POLITY* 284 (1983). Lowi reaches a similar conclusion and stresses the need for centrally coordinated redistributive policies. See Lowi, *Public Policy and Bureaucracy in the United States and France*, in 1 *COMPARING PUBLIC POLICIES: SAGE YEARBOOKS IN POLITICS AND PUBLIC POLICY* 177 (1978). Although I do not disagree with these observations, I would place a heavier explanatory emphasis on political rather than on administrative exigencies, and on the variable capacities for mobilizing political influence by different groups at different levels of government.

largely removed from electoral influence. The model is the Authority or the Special District, financed by legally protected revenue sources and administered by officials who do not stand for election. The emergence of these structural arrangements is not mysterious either, for they were created during the last century in response to the political efforts of businessmen reformers who sought to shield from popular interference the government programs on which they depended.<sup>52</sup>

These structural arrangements preceded the contemporary period of urban fiscal strain. But they shaped both the political demands that generated strain, and government responses to those demands. The policies that promoted regional economic shifts were principally federal policies, for the federal government had become the focus of political activity by the most important national economic interests. Meanwhile, the politics of the victims of regional economic change remained largely localized, played out mainly in the cities where they lived and worked, when they worked. The structure of American federalism generated this vertical segmentation of politics. This helps to account for the fact that the demands of diverse claimants were never joined, so that the conflict between investor interests and the interests of victims of investor-oriented policies did not emerge.

Nevertheless, the federal government could not ignore the disturbances emerging in the cities. Certainly, these disturbances could not be ignored by the Democratic administrations of the 1960s, for they depended on the capacity of the big city political organizations to promote Democratic voter allegiance. Therefore, national Democratic leaders promoted policies designed to "bail out the cities" with federal revenues given under federal terms.<sup>53</sup> But if these new programs blurred the vertical segmentation of American politics and policy, they nevertheless followed the outlines of horizontal fragmentation. Urban populations and

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52. The current fiscal constraints confronted by local governments has spurred the proliferation of these politically insulated agencies, and an even greater proliferation of their spending powers. During the five years preceding August, 1982, the number of special districts and authorities increased by 11%. Their spending increased even more rapidly, from \$9 billion in 1977 to almost \$25 billion in 1980. The New York Times commented, on the basis of interviews with local political leaders, that the growth in spending was a response to new budgetary limits placed on municipalities. N.Y. Times, Aug. 6, 1982, at A8, col. 1. The shift of financing of a range of business-oriented public functions into independent authorities removes significant spending decisions from the intense public scrutiny and pressure generated by the budgetary process.

53. For example, in order to obtain certain grants from the Law Enforcement Assistance Administration, created in 1968 by the Johnson administration, the states had to comply with 12 federal regulations. See O. STOLZ, REVENUE SHARING: LEGAL AND POLICY ANALYSIS 6-7 (1974); see also AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, REVENUE SHARING BILLS: AN ANALYSIS OF PROPOSALS TO SHARE FEDERAL REVENUE WITH STATE AND LOCAL GOVERNMENTS 3 (1970).

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urban governments were appeased not by modification of the main outlines of the national policies which were promoting disinvestment from the cities, but rather by an expansion of the range of popularly oriented programs that we call social welfare. The federal programs were used to prod local governments into expanding the traditional battery of popularly oriented municipal jobs and services, with the effect of escalating demands on municipal budgets.

These structural arrangements made possible the dual and illogical policies which led to urban fiscal crisis. Disinvestment from the older urban economies continued without challenge, while local political concessions—and consequent fiscal problems—proliferated. The eruption of “fiscal crisis” suggests there are indeed limits on these unique arrangements for accommodating conflict.

There are signs of other limits as well. The expansion of federal policies that were intended to compensate the urban victims of national investment policies eroded the vertical segmentation which had in the past muted conflict in the United States. Many of the federal programs were channelled through local government agencies, but others were not. Even when they were, the sheer scale of federal involvement, and the publicity that was necessarily attached to the federal role in order for the funds to do their political work, made the federal government’s role in popularly oriented programs highly visible. This development was extremely significant, for popular politics were becoming nationalized. This tendency did not begin in the 1960s; it owed much to the experience of the Great Depression, and perhaps even to the Progressive Period. It also owed a great deal to the steady expansion and increasing visibility of the federal government’s role in the national economy in deference to investor interests. The Great Society programs, and the expansion of national social welfare programs with which they were associated, however, contributed substantially to the nationalization of popular politics. In other words, while fiscal crisis on the local level reveals one limit to the illogic of the policies which produced urban fiscal strain, the erosion of some of the institutional arrangements which permitted the simultaneous pursuit of illogical policies suggests another limit.

### III. *The Future Evolution of Fiscal Crisis*

The Reagan administration has given the outlook associated with prevailing explanations of urban fiscal woes a new prestige and scope by invoking a species of the very same argument to justify a series of radical

national policy shifts.<sup>54</sup> To restore economic growth, the administration argues, the profitability of private investment has to be improved. Therefore, large tax cuts for business and the affluent are required. If government revenues are to be forfeited in this fashion, however, other expenditures must be reduced. There is no choice, and certainly no room for politics. Investors act not as political entities and not in relation to governmental policy, but merely in accord with market law. It is only government social programs, not government investor programs, that intrude on the market.

An ideology which unabashedly subordinates government to business at the national level stems in part from a decrease during the last decade in investment in new domestic productive capacity. This development—and the Reagan administration response—suggests that the historical vulnerability of local and state governments to the threat of disinvestment has now emerged as a major factor in national politics.

Armed with its ideological justification, the Reagan administration is rapidly altering federal policies in ways that will accelerate the pattern of disinvestment from the cities. The defense build-up will clearly direct new investment and new employment toward the southwest and away from the older cities.<sup>55</sup> Moreover, the relaxation of antitrust policies has given a green light to corporate mergers. This shift in policy encourages investment in less labor-intensive industries like petrochemicals rather than the labor-intensive industries commonly found in older cities.

Meanwhile, there is little reason to expect that the Economic Recovery Tax Act of 1981, which reduced taxation on higher income households and the largest corporations, will spur investment in the older industrial cities.<sup>56</sup> First, declining rates of investment in new plant capacity over the past decade have occurred despite steadily declining

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54. Robert Reich observes that the revival by this administration of the creed of the survival of the fittest, with its "inevitable correlate . . . that government should do little or nothing to eliminate poverty . . . has its roots in America's fallen hopes." Reich, *The Return of Social Darwinism: Ideologies of Survival*, NEW REPUBLIC, Sept. 27, 1982, at 34.

55. See EMPLOYMENT RESEARCH ASSOCIATES, *MILITARY SPENDING* (1984); EMPLOYMENT RESEARCH ASSOCIATES, *THE PRICE OF THE PENTAGON* (1982).

56. Reich estimates that households with the highest annual incomes have been the major beneficiaries of cuts in personal income taxes, while large corporations have been the major beneficiaries of cuts in corporate taxes. See Reich, *The Next American Frontier*, ATL. MONTHLY, March 1983, at 43; April 1983, at 97. The Congressional Budget Office projected that in 1984 households earning more than \$80,000 would gain, on average, \$8,390 from the tax cuts. N.Y. Times, April 4, 1984 at A1, col. 1. These reductions contributed to a long-term shift in the sources of federal revenues. The share of federal revenues accounted for by corporate taxation fell from 32% in 1952 to 7% in 1983. In the same period, the share made up by individual income taxes rose from 42% to 47%, while the share accounted for by the relatively regressive social insurance tax had risen from 10% to 36%. See M. GRAETZ, *FEDERAL INCOME TAXATION: PRINCIPLES AND POLICIES* ch. 1 (forthcoming 1985).

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rates of corporate taxation.<sup>57</sup> Second, some analysts argue that tax cuts which favor the very largest corporations will stimulate growth in those national and international firms which have the greatest locational discretion. Third, a tilt in tax incentives toward the largest corporations is a tilt toward those firms which generate less local employment, income and local public revenues in proportion to their capital.<sup>58</sup>

Other policy changes are more complicated in their effects. Federal grants-in-aid for public infrastructure, which helped generate the post-World War II pattern of economic growth and decline, have been sharply reduced. Some of these cuts—in water and sewer facilities grants, for example—will be felt by growing as well as declining metropolitan areas. Other infrastructure cuts, however, such as the elimination of federal support for state and local roads in favor of the Interstate Highway Program, will be harder on declining areas. While it is difficult and perhaps premature to disentangle the effects of these complex shifts in the pattern of federal infrastructure supports, it is likely that the overall impact will be felt most acutely in declining areas. Disinvestment in these areas is already far advanced and hard-pressed state and local governments will not have the revenues to compensate for reduced federal funding.

The monetary policy of the federal government has simultaneously undermined the capacity of municipalities to borrow on the capital markets, as high interest rates crowd out municipal bonds. This effect has been aggravated by a number of provisions of the Economic Recovery Tax Act. Since most of these bonds are now purchased by individuals, the sharp cut in top income tax rates reduces the incentive to purchase tax-exempt municipals, as does the introduction of tax-free "All-Savers" certificates. Consequently, municipalities are now paying higher interest rates in comparison to federal and corporate interest rates. Because debt service costs much more, municipalities are borrow-

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57. See R. LEKACHMAN, GREED IS NOT ENOUGH 57-79 (1982). Miller and Tomaskovic-Devey argue that corporate tax cuts are unreliable in their effects, since they do not deter speculation. They recommend "targeting" tax benefits to ensure investment in new plant capacity. See S. MILLER & D. TOMASKOVIC-DEVEY, RECAPITALIZING AMERICA 91 (1983). Commerce Department figures show that reductions in the personal income tax have been accompanied by a steady decline in personal savings as a percentage of disposable personal income, from 6.6 percent in 1981 to 4.9 percent in 1983. Hamilton, *IRA's: Good for the Taxpayers, but Maybe Not for the Economy*, Wash. Post Nat. Weekly Ed., April 16, 1984, at 18.

58. Several analysts have argued that because corporate tax cuts favor the largest and most capital intensive firms, they will encourage acquisitions instead of investment in new plant capacity. See B. BLUESTONE & B. HARRISON, *supra* note 19, at 127-129; R. LEKACHMAN, *supra* note 57, at 68-72. Friedland argues that tax subsidies reward the largest multilocal firms, which have the greatest mobility and therefore are most likely to invest outside metropolitan areas. See R. Friedland, *Welfare States and the Geography of Economic Growth* (Jan. 1983) (unpublished manuscript on file with the *Yale Law & Policy Review*).

ing less.<sup>59</sup> Finally, the federal tax cuts have eroded the revenues of some thirty state governments that tie their tax rates to federal tax rates.

Despite the upturn in the American economy, in combination the Reagan policies foretell the continued long-term economic decline of many of the older central cities. Even in the event that economic growth continues, the Reagan policies have increased the incentives for disinvestment from the older cities, which will lead to the further reduction of local revenues.<sup>60</sup> In the event that the economy turns downward, the circumstances of the older cities will be much worse.

If some of the Reagan policies can be understood as accelerating the broad pattern of regional disinvestment, still other of the administration's policies have clearly been intended to reduce the scale of the federal programs that compensated city politicians and city residents for some of the effects of economic disinvestment. The jobs component of the Comprehensive Employment Act was eliminated, as was the Trade Adjustment Assistance Program, which provided supplementary unemployment payments to some workers. Sharp cuts were made—and even sharper cuts attempted—in food programs, Medicaid, housing subsidies, unemployment insurance, and Aid to Families with Dependent Children.<sup>61</sup> These cuts were implemented even as the cities of the industrial

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59. Business Week reports that the amount of long-term bonds issued in the municipal market fell precipitously in 1981. Municipalities must now pay rates exceeding 80 percent of the cost of comparable rated but taxable corporate bonds. *Borrowing Gets Harder as the Demands Intensify*, BUS. WK., Oct. 26, 1981, at 154-55.

60. There is some evidence of uneven distribution of the benefits of recovery within the older cities. Unemployment rates do not tell the whole story. For example, the number of jobs in New York City rose to a ten-year high in 1983. However, the supply of entry level jobs in blue-collar manufacturing fields has declined. N.Y. Times, Feb. 23, 1984, at B6, col. 1. In fact, in July, 1984, at the peak of the recovery, the New York Times reported that "[m]ore people than at any time since the Depression are said to be hungry and homeless, and about one of every four New Yorkers is below the federal poverty level." N.Y. Times, July 28, 1984, at 1, col. 5.

61. According to an April, 1984 Congressional Budget Office Study, families earning under \$10,000 a year lost an average of \$410 a year from cuts in cash and "in-kind" benefits, while they gained \$20 a year from the tax cuts. N.Y. Times, April 4, 1984, at 1, col. 1. Some groups were more sharply affected. For example, a study carried out by the Institute for Research on Poverty and the Wisconsin Department of Health and Social Services found that AFDC recipients had lost 17% of their income from earnings, AFDC and food stamps one year after the cuts went into effect. Meanwhile, changes in the unemployment insurance program reduced outlays by one third, or \$15 billion, from 1975 levels. Institute for Research on Poverty, *Poverty in the United States*, 7 FOCUS 4-5 (1984). A 1984 General Accounting Office report concluded that the 1981 legislation had decreased the national AFDC basic monthly caseload by approximately 493,000 cases. GENERAL ACCOUNTING OFFICE, AN EVALUATION OF THE 1981 AFDC CHANGES: INITIAL ANALYSIS 3 (1984). The report also found that AFDC families in five cities had experienced "substantial" income losses as a result of the changes brought about by the legislation. *Id.* at 4. A study released by the Congressional Research Service in July, 1984, indicated that the budget restrictions had caused the number of poor to increase by at least 557,000, while the recession resulted in an increase of 1.6 million, or 7.7 percent, in the number of the poor. N.Y. Times, July 26, 1984, at A19, col. 1.



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belt of the Midwest and Northeast were reeling from the precipitous contraction of their industries in the 1981-82 recession. The combined results were to increase greatly the number of people living below the officially defined poverty line, and to widen income inequality.<sup>62</sup>

The Democratic administrations that introduced or expanded the compensatory programs had contrived to soften the impact of shifting investment patterns because they were vulnerable to the voters of the affected areas. The Reagan administration, in part because it is less politically vulnerable to these voters, has not only failed to follow the customary pattern of expanding compensatory programs, but has vigorously set about slashing them.<sup>63</sup> These policies have not only worsened the circumstances of large numbers of residents of the older industrial cities; they are also likely to redound negatively on city revenues. In cities where disinvestment is far advanced, income subsidies have become a prop for the local economy. In poor neighborhoods, income transfers generate a significant portion of local sales, and also support local real estate values by the rent payments they make possible. In this way the federal programs were the ultimate source of a certain portion of local sales and property tax revenues. With the programs cut, not only will city residents be worse off, but municipal coffers will be further depleted.

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None of these studies, however, is designed to grasp fully the social impact of increasing poverty. Some glimmering is suggested by a case study of the impact of cuts in one program, the Maternal and Child Health Block Grant, in five inner-city neighborhood health centers in Boston. The study found significant reductions both in the services offered and in the use of the centers, paralleled by rising infant mortality rates in the census tracts served. P. Feldman & B. Mosher, *Preserving Essential Services: Effects of the MCH Block Grant on Five Inner-city Boston Neighborhood Health Centers* (paper presented at the Harvard School of Public Health, July 1984) (on file with *Yale Law & Policy Review*). See also Harrington, *The New Gradgrinds*, *DISSENT*, Spring, 1984, at 171, for a discussion of several dimensions of poverty in the contemporary United States.

62. Relative poverty, defined as income less than 44% of the national median income adjusted for family size, rose to 17.8% in 1982, after falling slightly during the 1965-78 period. Moreover, the numbers of desperately poor were increasing. According to a statement by Rudolph Penner before a House subcommittee, the proportion of those below the official poverty line (set at \$9,862 for a family of four in 1982) whose incomes were less than 75 percent of the poverty level had increased from 61% in 1978 to 68% in 1982. The poor were also increasingly concentrated in urban areas. The percentage of the poor living in cities increased from 54 percent in 1969 to 62 percent in 1982, despite the overall decline of the population in the cities. Institute for Research on Poverty, *supra* note 61, at 7.

63. The Reagan Administration eliminated outright the minimum benefits planned for social security recipients and the CETA Jobs Training Program, and succeeded in cutting federal funds and tightening eligibility criteria for a host of federal funds, including Medicare, Medicaid, AFDC, food stamps, unemployment benefit insurance, education, day care, child protective services, services for the elderly and disabled, preventive health services, maternal and child health services, alcohol and drug treatment programs, community health centers, low-income energy assistance subsidies, community development programs, anti-poverty programs, and subsidized housing. See *N.Y. Times*, Feb. 19, 1981, at B6-7; July 29, 1981, at 18, col. 1; Sept. 21, 1981, at 1, col. 6; Feb. 1, 1983, at 17, col. 1.

A less obvious administration effort is to reduce the effectiveness of popular political demands which once made compensatory programs necessary. In part this aim is being pursued through the ideological campaign already described. The problems of urban residents and urban governments are being redefined so that they are no longer understood as actionable through politics. The effort to blunt the political pressures which generated the need for compensatory programs is not only ideological; it is also programmatic. The Community Services Administration, the legatee of the poverty program which was the centerpiece of the Great Society, has been eliminated,<sup>64</sup> and with it some of the resources and legitimation yielded by that program to promote claims on city government (as well as the federal government) by impoverished minority groups have disappeared. The attempt to eliminate the Legal Services program, made with notable stridency and determination, can similarly be understood as an effort not only to curb the flow of resources to the victims, but also to reduce the political resources ceded to the victims by the Democratic administrations of the 1960s.<sup>65</sup> Since these resources were typically directed to promoting demands on city governments, this would also reduce pressures for local expenditures.

Finally, the Reagan administration is attempting a structural shift in the American polity that would, were it to succeed, partially restore the vertical segmentation of business policies and popular policies that has been undermined by twentieth century developments. The administration is attempting to decentralize significant social welfare programs. The "New Federalism" proposal harkens back to the Nixon administration's revenue sharing proposals, launched with vaguely similar rhetoric about "returning power to the people." Revenue sharing shifted au-

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64. Economic Opportunity Act of 1964, 42 U.S.C. §§ 2941-48 (1964), *repealed by* Pub. L. No. 97-35, Title VI, 683(a), August 13, 1981, 95 Stat. 519.

65. The Legal Services Corporation, 42 U.S.C. § 2996, which was also created as part of the Economic Opportunity Act of 1964, has withstood successive attempts by the Reagan Administration in 1981, 1982, and 1983 to eliminate all funds appropriated to it by Congress. N.Y. Times, July 29, 1981, at 18, col. 1.; Feb. 1, 1983, at 17, col. 1. After Congress rejected the Administration's effort to abolish the Legal Services Corporation in 1981, President Reagan appointed a president and a majority of directors to the Corporation's board. The new board proceeded to adopt rules enabling the Corporation to "defund" certain programs and to ensure that Legal Aid lawyers assisted only the most destitute clients. N.Y. Times, Nov. 13, 1983, at 4, col. 4. As part of Congress' concession to the Administration on the Legal Services Corporation, the Corporation's budget was cut from \$321 million in 1981 to \$241 million in 1982 and 1983. In order to increase the budget of the Legal Services Corporation to \$275 million in 1984, Congress added certain restrictions to the appropriations bill as an inducement for President Reagan to sign, including curbs on lobbying by Legal Aid lawyers and staff, curbs on filing class actions against state and federal governments, limits on assistance to aliens, and procedural changes to make it more difficult for local legal services organizations to renew their grants. N.Y. Times, Nov. 15, 1983, at 22, col. 3.; Nov. 29, 1983, at 25, col. 3.

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thority for the allocation of some federal expenditures to the states and localities, although only a much watered-down version was implemented by a balky Congress.<sup>66</sup>

The Reagan administration appears more determined. It too was partly thwarted in the first round of congressional action on its "block grant" proposals, with the result that less federal authority was relinquished than the White House had proposed. But in 1982, the administration tried again, in effect proposing that the AFDC and food stamp programs be ceded to the states. The new proposals were dropped when they provoked an uproar among state and local officials. It is instructive to note they went much further toward decentralization than revenue sharing or block grants, for the new proposals coupled a transfer of program authority with a shift in revenue raising responsibility.

These decentralization proposals are attempts to implement structural changes. Like all structural changes, they would affect patterns of political organization and influence, thereby improving the capacity of some groups to make claims on the polity, and blunting the capacity of other groups. Decentralization is an attempt to reverse the nationalization of the politics of urban victims of economic change. It would accomplish this simply by fragmenting and displacing the national organizations and constituencies which emerged in the last two decades, forcing these political groups to scramble instead to try to influence developments in 50 states. At the same time, competition among groups would intensify as they competed with each other for limited revenues on the state level.<sup>67</sup>

Options for responding to these demands at the state level are limited, however. State governments only have feeble influence over patterns of investment, but they are very vulnerable to investor influence. Investors can and do bargain with state and local governments over desired policies and tax rates as the price for investing their money. This kind of pressure might well result in sharp reductions in AFDC and foodstamp benefits, which employers perceive as eroding work incentives and rais-

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66. The shifts in the distribution of federal largesse associated with the shift from the older federal grant-in-aid formulas to revenue sharing and block grants is examined in NATIONAL SCIENCE FOUNDATION, *THE ECONOMIC AND POLITICAL IMPACT OF GENERAL REVENUE SHARING* (1976); *See also* David & Kantor, *supra* note 51; M. Levine, *The Reagan Urban Policy: Efficient National Economic Growth and Public Sector Minimization* (paper presented at the Annual Meeting of the American Political Science Association, Sept. 1982) (on file with the *Yale Law & Policy Review*).

67. *See* N.Y. Times, May 8, 1983, at 18, col. 3, *citing* R. NATHAN & F. DOOLITTLE, *CONSEQUENCES OF CUTS* (forthcoming 1984). The Nathan and Doolittle study examines the responses of 14 states to the Reagan budget cuts and concludes that the states made their own cuts in the wake of the 1981 upheaval; that when restorations were made, they were often inadequate; and that the character of the restoration was piecemeal rather than inclusive.

ing taxes. Indeed, investor pressure, considered alone, might well drag benefit levels and eligibility criteria down to the levels prevailing in the lowest benefit and wage state, thus reversing an equalizing effect of federal social welfare programs on the states and localities evident since the Depression.

Decentralization could have another familiar effect by increasing fractionalism among the victims of national economic policy. The considerable leverage of investors on state governments accounts in large measure for a pattern of state taxation that is relatively regressive.<sup>68</sup> A pattern of regressive taxation, in turn, can be expected to heighten hostility toward income support programs among the part of the population that does not depend on the programs, but is made to pay for them.

Most important, were decentralization to succeed, the federal government itself would be spared the pressures of increasingly competitive politics among the populations hurt by disinvestment. Popular demands would be deflected downward in the federal system, even though national policies have become far more important than state and local policies in generating patterns of economic investment. The Reagan administration is not in fact proposing decentralization. It is merely trying to restore the pattern which limits popular politics to localities.<sup>69</sup>

Will the political pressures generated by the victims of economic policies be blunted by these efforts? Merely to outline the potential effects of the Reagan initiatives so baldly is to make such an outcome seem less than credible. First, popular ideas, and the political expectations associated with those ideas, are not so easily transformed by the ideological fulminations of a national leadership, particularly when those fulminations are contradicted by other leaders and when the ideological message denies a good portion of contemporary experience, including the experience of ordinary people. It will not be easy to persuade residents of big cities that the public expenditures on which they depend must be reduced because they intrude upon the market, at a time when a range of very large intrusions by the national government in the economy have become so visible.<sup>70</sup> The degree of federal government inter-

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68. The major characteristics of the state and local tax system are its regressivity and sluggish response to income growth. Fear of driving out commerce and industry and discouraging the entry of new business restrains the use of most taxes; this is true particularly of the individual income tax, which is the most equitable and most responsive to growth.

J. PECHMAN, *FEDERAL TAX POLICY* 247 (1983).

69. See F.F. PIVEN AND R. CLOWARD, *supra* note 3, at 128-132.

70. Despite President Reagan's pledge to reduce government spending, federal expenditures have continued to rise. For example, the federal budget for fiscal 1982, which called for expenditures of \$725.3 billion, was increased in 1983 by 4.5% to \$757.6 billion. *N.Y. Times*, Feb. 7, 1984, at 30, col. 3. This growth cannot be attributed solely to increased defense spend-

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vention in economic life has exposed the government, at least symbolically, to popular accountability for ensuring a measure of economic well-being. Debate over the extent of this accountability has marked every national presidential campaign for the last fifty years, and is surely one of the most striking features of contemporary American electoral politics.<sup>71</sup>

State and local leaders, of course, are not passive partners in the federal structure, and they are offering resistance to the new federal policies. After the first round of budget cuts in 1981, many of these officials began to lobby actively against additional cuts which would further reduce their revenues. This opposition has had an impact on Congress, where the Reagan administration has not been able to repeat its initial budget cutting successes despite the enormous pressure exerted by looming deficits.<sup>72</sup> State and city leaders responsible to urban constituencies have not aligned themselves with the several efforts to mute local popular political demands. Perhaps in moments of serene contemplation, a good number of them would prefer a return to an era of fewer claimants and more limited claims. From the perspective of these local leaders, however, there is no safe way to get from here to there. The Mayor of Hartford, contemplating the Reagan program for the cities, sees cities fighting states, and inner-city groups fighting city hall. "Meanwhile, Reagan will be sitting at Camp David saying, 'Isn't it wonderful, our national government is not interfering.'"<sup>73</sup> Local leaders understand that groups now firmly integrated into city politics cannot easily be ejected, and that claims now firmly acknowledged cannot be denied without serious political penalty. State and local leaders are likely to oppose a national crackdown on urban claims which, even if it were to succeed in reducing some of the demands on municipal budgets in the

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ing. For example, in 1983 the Reagan Administration spent a record \$19 billion in the farm price support program alone. *Wash. Post*, Feb. 2, 1984, at A16, col. 1.

71. See E. TUFTE, *POLITICAL CONTROL OF THE ECONOMY* (1978) for an analysis of the interaction of government policy, the economy and elections.

72. In 1983, Congress took action to halt any further reduction in spending for essential social services, including food stamps, AFDC, child care and child nutrition programs, and Medicaid for low-income families by cutting military expenditures. *N.Y. Times*, March, 24, 1983, at 26, col. 3. In addition, Congress appropriated monies to increase expenditures for certain programs, educational aid for disadvantaged children, categorical grants, food supplements, educational aid for handicapped students, and energy subsidies for low-income families. *N.Y. Times*, July 17, 1983, at 1, col. 3; Sept. 14, 1983, at 1, col. 2; Sept. 23, 1983, at 1, col. 1. In 1984, Congress again cut back on requested military expenditures for 1985 in order to buttress social welfare programs. The extent of congressional support for most programs has been limited to increases below the rate of inflation, however, with the exception of Social Security and automatic benefit programs where increases were calculated to match both the inflation rate and the expanding beneficiary pool. *N.Y. Times*, March 28, 1984 at 1, col. 3.

73. Quoted in *BUS. WK.*, Oct. 26, 1981, at 163.

long run, will put them at the center of contending and indignant groups in the short run.

In this curious way, the American federal structure, with its tangled pattern of centralization and decentralization, may itself become an obstacle to the current attempt to reduce claims on both federal and municipal budgets. The Reagan policies, however, are really not oriented to municipal fiscal strain and crisis. Rather, they reflect an attempt to reverse the nationalization of popular politics, with which urban politics and fiscal strain are intertwined. It is an attempt to restore the traditional pattern of federalism in which business politics was centralized and popular politics decentralized. The effort is almost surely too little, too late.

#### IV. *Conclusion*

Government policies were deeply implicated in the developments that led to the emergence of the period of urban fiscal strain. These policies were rooted in politics. The domestic policies of the Reagan administration, which will have a large impact on urban fiscal strain, are also rooted in politics, albeit of a different kind. By denying the importance of the role of willful human actors and focusing on the importance of anonymous market processes the prevailing analysis does not reduce the *role* of politics in urban development; rather, it merely reduces the number of *participants* in the politics of urban development.

Furthermore, this article has argued that a distinctive kind of politics, shaped by long-established structural features of the American polity, muted conflict by proliferating concessions. Over time these structural arrangements weakened, conflict escalated, and spread to national politics. The Reagan administration has responded by attempting to restore the structural arrangements which once contained popular politics. If it succeeds, the arrangements which contributed to the illogical politics and policies of the past will be restored, and conflict will once again be repressed, although fiscal strains will worsen. If the administration fails, the issues of governmental economic and social policy issues which should rightly be the object of national political contention should once again emerge in national politics.